

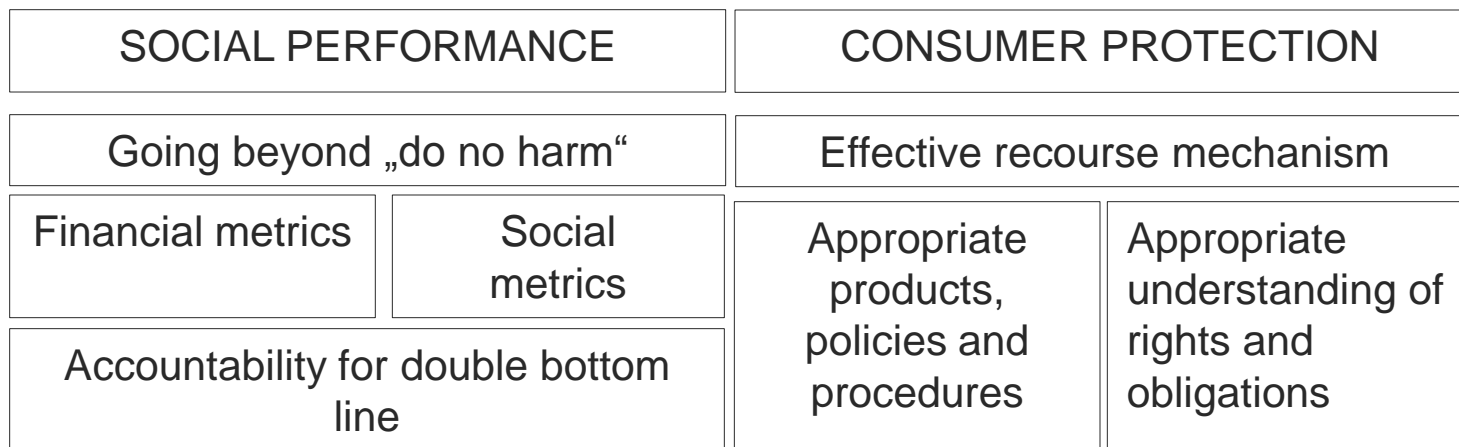
Regulatory Approaches in Consumer Protection



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Responsible Finance

FSPs, governments,
consumer advocates, &
industry associations,
development agencies,
researchers, media



MIX Market Social Reporting

Principles for Investors in Inclusive Finance

Social Performance Task Force

Socially responsible Investors

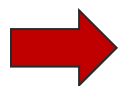
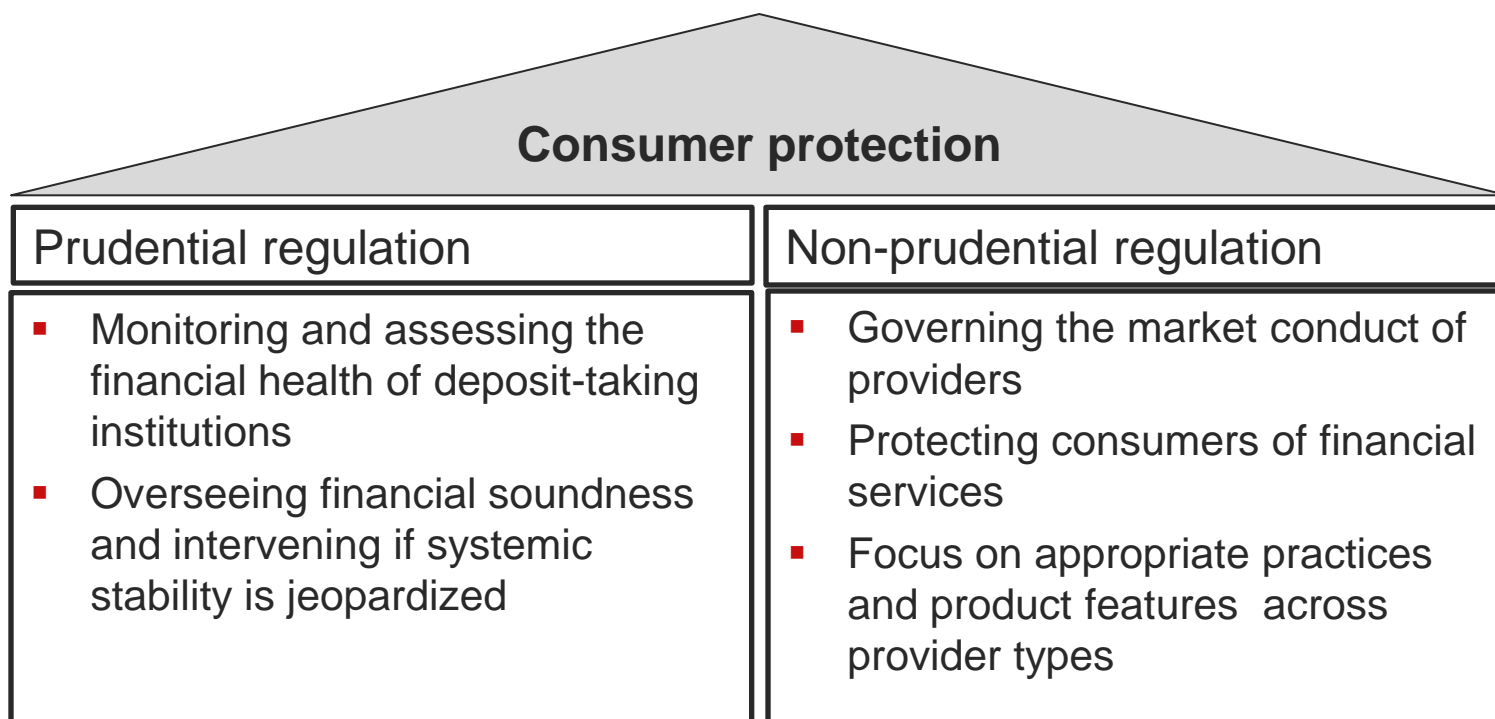
Smart Campaign

Microfinance Transparency

7 Client Protection Principles

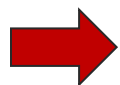
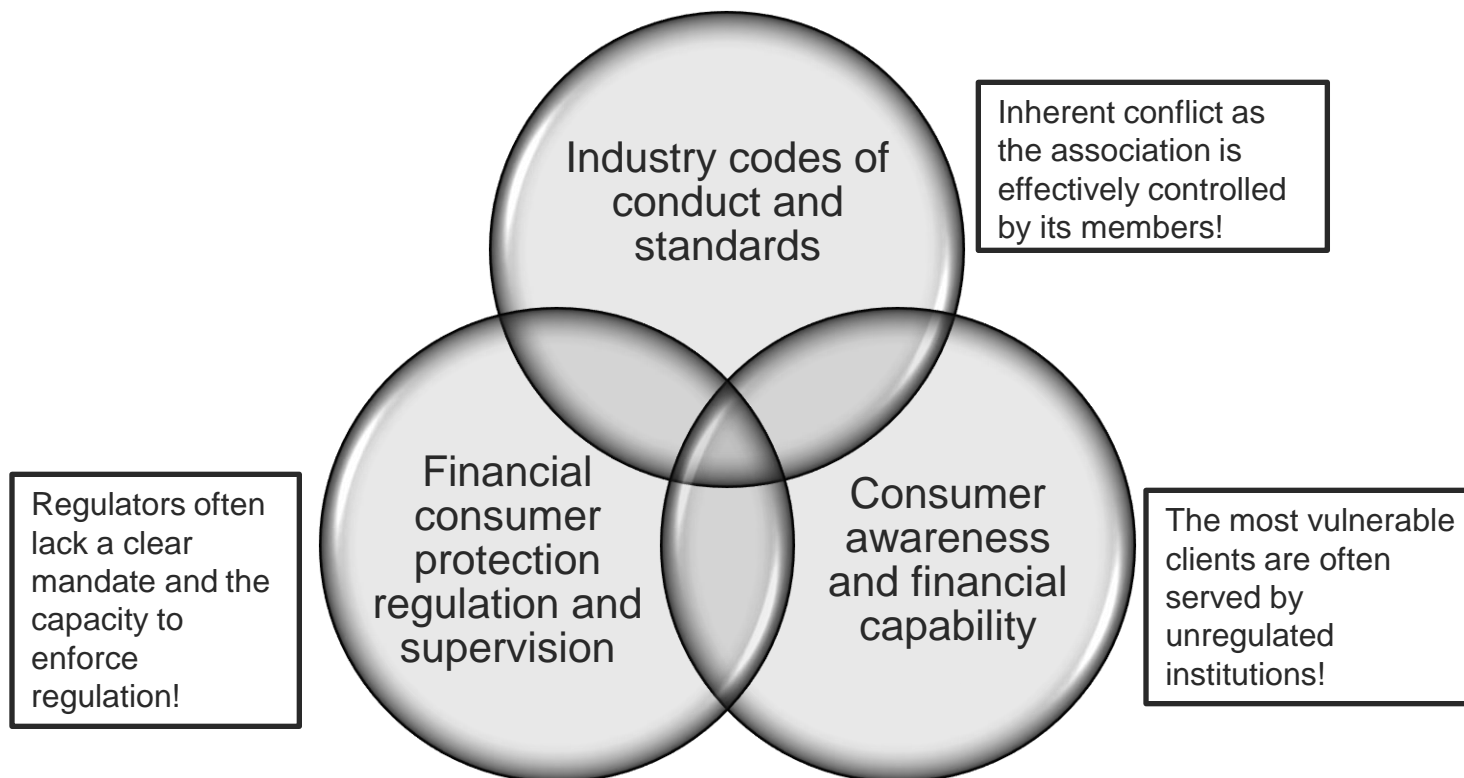
Ensure fair and transparent credit pricing

Non-prudential regulation in consumer protection



Prudential regulation – more complex, difficult and expensive than non-prudential regulation?

Three **mutually reinforcing pillars** to promote consumer protection



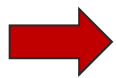
Challenge: Regulator and industry can agree on standards. But for them to be effective clients need awareness must have the **capacity** to use them!

Policy makers / regulators – design of consumer protection strategies

- Consumer protection regulatory experience
- Financial Inclusion goals
- Feedback from customers, specific consumer risks
- Stakeholders
- Compliance costs for responsible providers
- **Own resources, capacity & an outspoken mandate!**

Building block approach backed by consumer research, for instance:


1. Declining balance method; key fact documents
2. Standardized price formulas; cooling-off periods

 **Challenge:** Overcome „rush to regulate“ and severe market interference (interest rate caps). Incremental and proportional approaches are a better response!

The impact of **self-regulation** depends on the commitment of the members

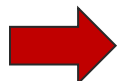
To what extent can self-regulation be effective, when financial institutions have an inherent conflict in protecting consumers?

- Problem is usually **not the absence** of codes of conduct, **but rather the enforcement** of compliance
- Influence is limited if bigger & **influential institutions** are not obliged to become members of the association
- To be effective it is necessary that MFIs (**board, management, staff**) adopt Client Protection Principles as a basis for changing institutional attitude towards clients

 **Challenge:** Resolving complaints should be in the 1st place the responsibility of the providers. But without sanctions/incentives the translation of codes of conduct into practice becomes difficult.

Looking at **industry standards** and codes of conduct

- How far can „self-regulation“ (codes of conduct, voluntary performance standards) *complement* prudential regulation?
- What is the role of the formal regulator – should he be involved and how should he be involved?
- What needs to be done in order to make self-regulation workable:
 - for the consumer,
 - for the MFI,
 - for the whole sector?



Looking at the experience from Kyrgyzstan